
ANNUAL FINANCIAL REPORT

OF THE

EASTERN HIGHLANDS HEALTH DISTRICT

FOR THE YEAR ENDED
JUNE 30, 2008

EASTERN HIGHLANDS HEALTH DISTRICT

ANNUAL FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Eastern Highlands Health District

We have audited the accompanying financial statements of the governmental activities and each major fund of Eastern Highlands Health District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Eastern Highlands Health District, as of June 30, 2008, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kostin, Ruffkess & Company, LLC

Farmington, Connecticut
December 3, 2008



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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

Management of the Eastern Highlands Health District offers readers of these financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$360,367 (*net assets*). Of this amount, \$288,186 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to creditors.
- The District's total net assets increased by \$9,738. This was due to capital asset additions in excess of depreciation.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$319,017, a decrease of \$31,727 in comparison with the prior year. 100.0% of combined fund balances are *available for spending* at the District's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved undesignated fund balance for the general fund was \$210,853 or 27.14% of total general fund expenditures and transfers out.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, health grants and the capital projects fund, all of which are considered to be major funds.

The general fund is the general operating fund of the District and operates under a budget. Annually, the budget is voted upon by District Board Members. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$360,367 at the close of the most recent fiscal year.

Of the net assets, \$72,181 reflects the District's investment in capital assets (e.g., office equipment and vehicles). These assets are not available for future spending.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**EASTERN HIGHLANDS HEALTH DISTRICT
NET ASSETS
JUNE 30, 2008**

	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 349,464	\$ 382,600
Capital assets	<u>72,181</u>	<u>31,568</u>
Total assets	<u>421,645</u>	<u>414,168</u>
Long-term liabilities outstanding	24,665	31,683
Other liabilities	<u>36,613</u>	<u>31,856</u>
Total liabilities	<u>61,278</u>	<u>63,539</u>
Net assets:		
Investment in capital assets	72,181	31,568
Unrestricted	<u>288,186</u>	<u>319,061</u>
Total net assets	<u>\$ 360,367</u>	<u>\$ 350,629</u>

At the end of the current fiscal year, the District is able to report positive balances in both of the categories of net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental activities. The District's net assets increased by \$9,738 during the current fiscal year. The increase is primarily the result of less than anticipated expenses.

EASTERN HIGHLANDS HEALTH DISTRICT CHANGE IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2008

	<u>2008</u>	<u>2007</u>
Revenues:		
Program revenues:		
Charges for services	\$ 209,834	\$ 229,850
Operating grants and contributions	372,262	241,915
General revenues:		
Assessment to member towns	<u>345,270</u>	<u>322,676</u>
Total revenues	927,366	794,441
Expenses:		
Health services	<u>917,628</u>	<u>789,855</u>
Change in net assets	9,738	4,586
Net assets - July 1	<u>350,629</u>	<u>346,043</u>
Net assets - June 30	<u>\$ 360,367</u>	<u>\$ 350,629</u>

- Charges for services decreased by \$20,016 due to a decrease in septic permits and soil testing associated with property development offset by a slight increase in other health services, primarily for food protection service.
- Operating grants and contributions increased due to increases in the per capita funding, bioterrorism, and skin cancer grants as well as the addition of a cardiovascular grant.
- Expenses increased mainly due to increases in health insurance premiums and information technology upgrades

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$319,017, a decrease of \$31,727 in comparison with the prior year. All \$319,017 constitutes unreserved fund balance, which is available for spending at the District's discretion.

The general fund is the operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$210,853.

The fund balance of the District's general fund decreased by \$61,393 during the current fiscal year. The key factor in this decrease is:

- A transfer of \$70,000 to the Capital Nonrecurring Fund.

The health grants fund has no fund balance or net change in fund balance since all revenues are intergovernmental grants and any monies not received or spend are recorded as accounts receivable or deferred revenue.

The capital projects fund has a total fund balance of \$108,164, all of which is unreserved and available for spending. The net increase in fund balance during the current year in the capital projects fund was \$29,666. This was substantially due to the transfer from the general fund.

General Fund Budgetary Highlights

The only budgetary change for the fiscal year was to increase the transfer to the Capital Nonrecurring Fund from \$2,000 to \$70,000.

Capital Assets

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2008, amounts to \$72,181 (net of accumulated depreciation). This investment in capital assets includes office equipment and vehicles. There were \$50,299 of additions to capital assets in the current year. Depreciation expense was \$9,686 for the year.

There was \$50,299 of capital asset additions in the current year, made up of the following:

- (2) 2008 Prius automobiles for \$42,460
- (3) OptiPlex Desktop Computers for \$2,994
- (17) FilemakerPro licenses for \$4,845

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

EASTERN HIGHLANDS HEALTH DISTRICT CAPITAL ASSETS (NET OF DEPRECIATION)

	<u>2008</u>	<u>2007</u>
Office Equipment.....	\$ 8,610	\$ 2,757
Vehicles	<u>63,571</u>	<u>28,811</u>
Total	<u>\$ 72,181</u>	<u>\$ 31,568</u>

Economic Factors and Next Year's Budgets and Rates

The facilities and offices of the Eastern Highlands Health District are located east of Hartford, Connecticut. The Eastern Highlands Health District is one of nineteen local Health Districts in the State of Connecticut. Established on June 6, 1997, it now serves the towns of Andover, Ashford, Bolton, Chaplin, Columbia, Coventry, Scotland, Tolland, Willington, and Mansfield, with a total district population of 80,301. The main Health District office is located in the Town of Mansfield.

The amended budget for fiscal year 2009 was passed by its Board of Directors on January 18, 2008, for \$791,310.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to, Jeffrey H. Smith, Director of Finance, Town of Mansfield, 4 South Eagleville Road, Mansfield, CT 06268.

Basic Financial Statements

EXHIBIT A

EASTERN HIGHLANDS HEALTH DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2008

	GOVERNMENTAL ACTIVITIES
<u>ASSETS</u>	
Current assets:	
Cash.....	\$ 332,603
Receivables:	
Accounts.....	1,063
Intergovernmental.....	15,798
Total current assets.....	349,464
Noncurrent assets:	
Capital assets (net of accumulated depreciation):	
Office equipment.....	8,610
Vehicles.....	63,571
Total Capital assets (net of accumulated depreciation)....	72,181
TOTAL ASSETS.....	421,645
<u>LIABILITIES</u>	
LIABILITIES:	
Current liabilities:	
Accounts payable.....	985
Accrued liabilities.....	9,140
Unearned revenue.....	20,322
Compensated absences.....	6,166
Total current liabilities.....	36,613
Noncurrent liabilities:	
Compensated absences.....	24,665
TOTAL LIABILITIES.....	61,278
<u>NET ASSETS</u>	
Invested in capital assets.....	72,181
Unrestricted.....	288,186
TOTAL NET ASSETS.....	\$ 360,367

The notes to the financial statements are an integral part of this statement.

EXHIBIT B

EASTERN HIGHLANDS HEALTH DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET EXPENSES AND CHANGES IN NET ASSETS
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
GOVERNMENTAL ACTIVITIES:				
Health services.....	\$ 917,628	\$ 211,104	\$ 372,262	\$ (334,262)
GENERAL REVENUES:				
Assessment to member towns.....				\$ 344,000
CHANGE IN NET ASSETS.....				9,738
NET ASSETS - JULY 1, 2007.....				350,629
NET ASSETS - JUNE 30, 2008.....				\$ 360,367

The notes to the financial statements are an integral part of this statement.

EASTERN HIGHLANDS HEALTH DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	GENERAL	HEALTH GRANTS	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
Cash.....	\$ 220,800	\$ 3,639	\$ 108,164	\$ 332,603
Receivables:				
Accounts.....		1,063		1,063
Intergovernmental.....		15,798		15,798
TOTAL ASSETS.....	\$ 220,800	\$ 20,500	\$ 108,164	\$ 349,464
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts and other payables.....	\$ 807	\$ 178	\$	\$ 985
Accrued liabilities.....	9,140			9,140
Deferred and unearned revenue.....		20,322		20,322
TOTAL LIABILITIES.....	9,947	20,500	-	30,447
FUND BALANCES:				
Unreserved, reported in:				
General fund.....	210,853			210,853
Capital projects funds.....			108,164	108,164
TOTAL FUND BALANCES.....	210,853	-	108,164	319,017
TOTAL LIABILITIES AND FUND BALANCES....	\$ 220,800	\$ 20,500	\$ 108,164	\$ 349,464

(Continued)

EASTERN HIGHLANDS HEALTH DISTRICT

RECONCILIATION OF FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (EXHIBIT A)
ARE DIFFERENT FROM THE GOVERNMENTAL FUND BALANCE SHEET. THE DETAILS OF THIS DIFFERENCE ARE
AS FOLLOWS:

TOTAL FUND BALANCES (EXHIBIT C, PAGE 1)..... \$ 319,017

CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES
AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS:

Beginning net capital assets	31,568
Capital assets current year additions.....	50,299
Depreciation expense.....	(9,686)

SOME LIABILITIES ARE NOT DUE AND PAYABLE IN THE CURRENT
PERIOD AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS:

Compensated absences.....	(30,831)
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NET ASSETS OF GOVERNMENTAL ACTIVITIES.....	<u>\$ 360,367</u>
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(Concluded)

EXHIBIT D**EASTERN HIGHLANDS HEALTH DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	GENERAL	HEALTH GRANTS	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Member town contributions.....	\$ 344,000	\$	\$	\$ 344,000
Intergovernmental.....	172,905	186,957	12,400	372,262
Septic permits.....	31,410			31,410
Well permits.....	22,695			22,695
B100a building permit review.....	23,420			23,420
Soil testing service.....	46,805			46,805
Engineered plan review.....	13,205			13,205
Food protection service.....	35,488			35,488
Non-engineered plan review.....	7,635			7,635
Group home/daycare inspection.....	1,740			1,740
Subdivision review.....	9,765			9,765
Food plan review.....	2,485			2,485
Local support.....		12,499		12,499
Other health services.....	3,957			3,957
TOTAL REVENUES.....	715,510	199,456	12,400	927,366
EXPENDITURES:				
Current:				
Payroll and benefits.....	638,712	91,080		729,792
Other purchased services.....	31,797	39,838		71,635
Liability insurance.....	14,201		5,000	19,201
Supplies and services.....	14,948	50,770	5,274	70,992
Repairs and maintenance.....	4,376			4,376
Other.....	2,869	17,768		20,637
Capital outlay.....			42,460	42,460
TOTAL EXPENDITURES.....	706,903	199,456	52,734	959,093
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	8,607	-	(40,334)	(31,727)
OTHER FINANCING SOURCES (USES):				
Transfers in.....			70,000	70,000
Transfers out.....	(70,000)			(70,000)
NET OTHER FINANCING SOURCES (USES).....	(70,000)	-	70,000	-
NET CHANGE IN FUND BALANCES.....	(61,393)	-	29,666	(31,727)
FUND BALANCES - JULY 1, 2007.....	272,246	-	78,498	350,744
FUND BALANCES - JUNE 30, 2008.....	\$ 210,853	\$ -	\$ 108,164	\$ 319,017

The notes to the financial statements are an integral part of this statement.

EASTERN HIGHLANDS HEALTH DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES
(EXHIBIT B) ARE DUE TO:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (EXHIBIT D)..... \$ (31,727)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Depreciation expense..... (9,686)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated absences..... 852

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (EXHIBIT B)..... \$ 9,738

EASTERN HIGHLANDS HEALTH DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Member town contributions.....	\$ 342,500	\$ 342,500	\$ 344,000	\$ 1,500
Intergovernmental.....	135,830	135,830	172,905	37,075
Septic permits.....	60,120	60,120	31,410	(28,710)
Well permits.....	22,870	22,870	22,695	(175)
B100a building permit review.....	27,760	27,760	23,420	(4,340)
Soil testing service.....	72,720	72,720	46,805	(25,915)
Engineered plan review.....	27,550	27,550	13,205	(14,345)
Food protection service.....	36,930	36,930	35,488	(1,442)
Non-Engineered plan review.....	6,550	6,550	7,635	1,085
Group home/daycare inspection.....	970	970	1,740	770
Subdivision review.....	7,200	7,200	9,765	2,565
Food plan review.....	1,790	1,790	2,485	695
Other health services.....	4,000	4,000	3,957	(43)
TOTAL REVENUES.....	746,790	746,790	715,510	(31,280)
EXPENDITURES:				
Current:				
Regular salaries - non-union	512,650	510,760	470,223	40,537
Social security.....	32,520	31,930	34,797	(2,867)
Workers' compensation.....	10,500	13,740	13,643	97
Medicare.....	7,580	7,320	8,122	(802)
ICMA.....	31,400	30,900	30,326	574
Life insurance.....	2,260	2,260	1,961	299
RHS contribution.....	1,670	1,670	1,748	(78)
Dues and subscriptions.....	1,000	1,000	270	730
Training.....	1,000	1,000	390	610
Mileage reimbursement.....	400	400	461	(61)
Professional and technical.....	10,000	10,000	10,240	(240)
Legal.....	3,200	3,200	592	2,608
Audit expense.....	4,100	4,100	5,250	(1,150)
Vehicle repair and maintenance.....	4,000	4,000	2,813	1,187
General liability.....	12,540	12,540	14,201	(1,661)
Medical insurance.....	79,640	79,640	79,640	-
Advertising.....	2,000	2,000	4,756	(2,756)
Printing and binding.....	1,000	1,000	-	1,000
Postage.....	1,500	1,500	1,500	-
Copier maintenance fees.....	700	700	1,563	(863)
Voice communications.....	3,200	3,200	3,200	-
Other purchased services.....	-	-	45	(45)
Instructional supplies.....	800	800	-	800
Books and periodicals.....	200	200	159	41
Office supplies.....	2,000	2,000	1,495	505
Gasoline.....	5,000	5,000	5,698	(698)
Office equipment.....	860	860	576	284
Equipment - other.....	600	600	764	(164)
Administrative overhead.....	12,470	12,470	12,470	-
TOTAL EXPENDITURES.....	744,790	744,790	706,903	37,887
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	2,000	2,000	8,607	6,607

(Continued)

EXHIBIT F
(2 of 2)

EASTERN HIGHLANDS HEALTH DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (CONTINUED)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
OTHER FINANCING SOURCES (USES):				
Appropriation of fund balance.....	\$ (2,000)	\$ 68,000	\$ (70,000)	\$ (68,000)
Transfers out.....	(2,000)	(70,000)	(70,000)	-
NET OTHER FINANCING SOURCES (USES).....	(2,000)	(2,000)	(70,000)	(68,000)
NET CHANGE IN FUND BALANCES.....	<u>\$ -</u>	<u>\$ -</u>	(61,393)	<u>\$ (61,393)</u>
FUND BALANCE - JULY 1, 2007.....			272,246	
FUND BALANCE - JUNE 30, 2008.....			<u>\$ 210,853</u>	
				(Concluded)

The notes to the financial statements are an integral part of this statement.

EASTERN HIGHLANDS HEALTH DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008****HISTORY AND ORGANIZATION**

The Eastern Highlands Health District was formed in June 1997, as a cooperative effort to create a regional, full time professional health department and consists of the following member towns: Andover, Ashford, Bolton, Chaplin, Columbia, Coventry, Mansfield, Scotland, Tolland and Willington. The Board of Directors of the District consists of appointed representatives from each member town. The District provides a wide range of public health services for its member towns. The services are funded by local assessments, Federal and State grants and direct charges for specific services.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by member town assessments and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Member town assessments and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

EASTERN HIGHLANDS HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Member town assessments, expenditure reimbursement type grants, certain intergovernmental revenues, and transfers associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Health Grants Fund* accounts for the grants activity of the District.

The *Capital Projects Fund* accounts for the financial revenues to be used for major capital asset construction and/or purchases.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, Liabilities, and Net Assets or Equity

1. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office Equipment	5-10
Vehicles	6-10

EASTERN HIGHLANDS HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Compensated Absences

A limited amount of vacation earned may be accumulated by employees until termination of their employment, at which time they are paid for accumulated vacation. Sick time does not vest.

3. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets.

4. Fund Equity and Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

In the government wide-financial statements, net assets are classified into the following categories:

Invested in Capital Assets, Net of Related Debt

This category presents the net assets that reflect capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for non-capital purpose is excluded.

Unrestricted Net Assets

This category presents the net assets of the District which are not restricted.

5. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities including disclosures of contingent assets and liabilities and reported revenues, expenses and expenditures during the fiscal year.

EASTERN HIGHLANDS HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The District adheres to the following procedures in establishing the budgetary data included in the financial statements of the general fund, the only fund with a legally adopted annual budget.

- Annually, the budget is voted upon by District Board members.
- The District Board may amend the budget. A public hearing is required if the per capita costs to the member towns increase as a result of the amendment. With the exception of payroll, social security, workers compensation, Medicare, retirement, health and life insurance, the Director of Health may make necessary line item transfers in the operating portion of the budget without Board approval, provided the total operating portion of the budget does not increase. Transfers greater than \$5,000 shall be reported to the Finance committee. Changes in payroll, social security, workers compensation, Medicare, retirement, health insurance and life insurance line items shall be approved by the finance committee. Additional appropriations of \$68,000 were authorized during the year from fund balance.
- Formal budgetary integration is employed as a management control device during the year.
- Legal level of control (the level at which expenditures may not legally exceed appropriations) is at the total budget level.
- Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued and, accordingly, encumbrances outstanding at year end are reported in budgetary reports (Exhibit F) as expenditures in the current year. Generally, all unencumbered appropriations lapse at year end, except those of the Capital Projects Fund. Encumbered appropriations are carried forward to the ensuing fiscal year.

III. DETAILED NOTES

A. Cash and Investments

Deposits - At June 30, 2008, the carrying amount of the District's deposits was \$332,603 and is part of the Town of Mansfield, Connecticut's pooled cash account. The District does not have a deposit policy for custodial credit risk. Separate risk classification is not available.

B. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	BALANCE JULY 1, 2007	INCREASES	DECREASES	BALANCE JUNE 30, 2008
<u>Governmental Activities:</u>				
<u>Capital Assets, being Depreciated:</u>				
Office equipment	\$ 16,456	\$ 7,839	\$	\$ 24,295
Vehicles	64,312	42,460		106,772
Total Capital Assets, being Depreciated	80,768	50,299	-	131,067
<u>Less Accumulated Depreciation for:</u>				
Office equipment	13,699	1,986		15,685
Vehicles	35,501	7,700		43,201
Total Accumulated Depreciation	49,200	9,686	-	58,886
Total Capital Assets, being Depreciated, net	\$ 31,568	\$ 40,613	\$ -	\$ 72,181

EASTERN HIGHLANDS HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

C. Interfund Payables, Receivables and Transfers

All interfund balances resulted from the time lag between the date payments occurred between funds for short-term internal financing. Transfers are used to account for the financing by the general fund of various programs and activities in other funds.

D. Changes in Long-Term Obligations

Summary of Changes

The following is a summary of changes in long-term obligations during the fiscal year:

	BALANCE JULY 1, 2007	INCREASES	DECREASES	BALANCE JUNE 30, 2008	CURRENT PORTION
COMPENSATED ABSENCES	\$ 31,683	\$ 65,235	\$ 66,087	\$ 30,831	\$ 6,166

All long-term liabilities are generally liquidated by the General Fund.

IV. OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to public officials, torts, injuries to employees or acts of God. The District purchases commercial insurance for all risks of loss, except for medical insurance. Settled claims have not exceeded commercial coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

Hospital and medical surgical health coverage for District employees are administered by the Town of Mansfield, Connecticut (the Town), which have been recorded in the Town's records as an internal service fund. The Fund's general objectives are to formulate, on behalf of the members, a health insurance program at lower cost of coverage and to develop a systematic method to control health costs.

A third party administers the plan through a contract with the Town for which the Fund pays a fee. The Fund has purchased aggregate stop loss coverage at 125 percent of expected claims. In addition to the aggregate stop loss, the Fund has also purchased \$100,000 of combined medical surgical and major medical individual stop loss coverage.

B. Subsequent Event

On October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009.

**State
Single
Audit**

EASTERN HIGHLANDS HEALTH DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2008**

STATE GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	STATE GRANT PROGRAM IDENTIFICATION PROGRAM	EXPENDITURES
<u>DEPARTMENT OF PUBLIC HEALTH</u>		
Women's Cardiovascular Health.....	11000-DPH48500-17009	\$ 39,706
Skin Cancer Prevention.....	11000-DPH48500-10020	1,719 (1)
Healthy Eating, Active Living Grant.....	11000-DPH48873-12126	13,953
Local District Departments of Health.....	11000-DPH48500-17009	172,905
Passed through Northeast District Department of Health: Asthma Program.....	11000-DPH48500-10020	3,490
TOTAL STATE FINANCIAL ASSISTANCE.....		<u>\$ 231,773</u>

(1) \$14 due to State

EASTERN HIGHLANDS HEALTH DISTRICT

NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2008

Various departments and agencies of the State of Connecticut have provided financial assistance to the Eastern Highlands Health District through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including the Department of Public Health.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Eastern Highlands Health District conform to accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The following is the significant policy relating to state financial assistance.

Basis of Presentation

The accompanying Schedule of Expenditures of State Financial Assistance is presented on the modified accrual basis of accounting and a current financial resources measurement focus.

The Schedule of Expenditures of State Financial Assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Section 4-236-22), certain grants are not dependent on expenditure activity and, accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Financial Assistance.

EASTERN HIGHLANDS HEALTH DISTRICT

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Summary Schedule of Prior Audit Findings

None

EASTERN HIGHLANDS HEALTH DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes x no

Significant deficiency(ies) identified that are
not considered to be material weaknesses? yes x none reported

Noncompliance material to financial statements noted? yes x no

State Financial Assistance

Internal control over major programs:

Material weakness(es) identified? yes x no

Significant deficiency(ies) identified that are
not considered to be material weakness(es)? yes x none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Section 4-236-24 of the Regulations
to the State Single Audit Act? yes x no

The following schedule reflects the major program included in the audit:

<u>State Grantor and Program</u>	<u>State Grant Program Core CT Number</u>	<u>Expenditures</u>
Department of Public Health: Local District Departments of Health	11000-DPH48500-17009	\$172,905

II. FINANCIAL STATEMENTS FINDINGS

- We issued our report dated December 3, 2008, on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards.
- Our report on compliance indicated no reportable instances of noncompliance.
- Our report on internal control over financial reporting indicated no significant deficiencies.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

No findings or questioned costs are reported relating to State financial assistance programs.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Eastern Highlands Health District

We have audited the financial statements of the governmental activities and each major fund of the Eastern Highlands Health District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Eastern Highlands Health District
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the District in a separate letter dated December 3, 2008.

This report is intended solely for the information and use of management, the Board of Directors, Office of Policy and Management, and State awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kostin, Ruffkess & Company, LLC

Farmington, Connecticut
December 3, 2008



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE STATE SINGLE AUDIT ACT

Board of Directors
Eastern Highlands Health District

Compliance

We have audited the compliance of the Eastern Highlands Health District with the types of compliance requirements described in the Office of Policy and Management Compliance Supplement that are applicable to each of its major state programs for the year ended June 30, 2008. The major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the District's management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Eastern Highlands Health District
Page Two

Internal Control Over Compliance (Continued)

A *control deficiency* in a District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of State Financial Assistance

We have audited the financial statements of the governmental activities and each major fund of the District, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 3, 2008. Our audit was performed for the purpose of forming opinions on the financial statements taken as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Directors, Office of Policy and Management, and State awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kostin, Ruffkess & Company, LLC

Farmington, Connecticut
December 3, 2008